

Message Text

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TO SECSTATE WASHDC 6973
INFO AMEMBASSY OTTAWA
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UNCLAS SECTION 1 OF 2 TORONTO 0395

E.O. 11652: N/A
TAGS: EFIN, CA
SUBJ: ONTARIO BUDGET FOR 1978 UNSPECTACULAR

1. THE ONTARIO BUDGET FOR 1978, ANNOUNCED BY PROVINCIAL TREASURER DARCY MCKEOUGH MARCH 7, IS THE FOURTH IN A ROW TO PROPOSE A DOLS 1 BILLION DEFICIT BUT IS STILL CONSIDERED TO REFLECT THE CONSERVATIVE PROGRAM OF THE GOVERNMENT AND A PRIME INTENT OF CUTTING SPENDING GROWTH. ACCORDING TO HCKEOUGH, THE BUDGET WILL HOLD SPENDING GROWTH TO 7 PER CENT, 1 PER CENT BELOW THE INFLATION RATE AND ALMOST 3 PER CENT BELOW FEDERAL SPENDING GROWTH, BY MEASURES AS CONTINUING TO LIMIT CIVIL SERVICE SALARY AND SIZE.

2. MAJOR REVENUE ELEMENT IN THE BUDGET IS A 37.5 PER CENT INCREASE IN PREMIUMS FOR THE ONTARIO HEALTH INSURANCE PLAN WHICH, TOGETHER WITH THE 1976 PREMIUM INCREASE, PROVIDE A DOUBLING OF PREMIUM RATES IN TWO YEARS. THE MEASURE WILL GENERATE AN ADDITIONAL DOLS 271 MILLION IN REVENUE AND THE GOVERNMENT CALCULATES THAT ALMOST THREE QUARTERS TF THIS AMOUNT WILL BE PAID BY EMPLOYERS AS PART OF
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JOB FRINGE BENEFITS. ONTARIO'S HEALTH INSURANCE PREMIUMS ARE HIGHEST IN CANADA AND HIGHER INCOME BRACKET ONTARIO RESIDENTS WILL NOW BE PAYING MORE IN HEALTH INSURANCE PREMIUMS THAN THEY PAY IN INCOME TAXES TO FEDERAL AND PROVINCIAL GOVERNMENTS.

3. OTHER TAX MEASURES INVOLVE INCREASED TAXES ON

TOBACCO, BEER, SPIRITS AND WINE AND WITHDRAWAL OF THE RETAIL SALES TAX EXEMPTION FOR RAILWAY ROLLING STOCK, IMPOSING THE 7 PER CENT TAX ON THE BASIS OF MILES TRAVELLED IN ONTARIO. THE CAPITAL TAX LEVIED ON LOAN AND TRUST COMPANIES WILL BE CHANGED TO PARALLEL TREATMENT OF BANKS EFFECTIVE FOR FISCAL YEARS ENDING AFTER MARCH 7, 1978. SEPARATE MESSAGE WILL COVER THE INCREASES IN WINE, SPIRITS AND BEER AS THEY EFFECT IMPORTS.

4. BENEFITS CONTAINED IN THE BUDGET INCLUDE A PROGRAM DESIGNED TO CREATE ADDITIONAL JOBS FOR YOUNG PEOPLE DURING THE COMING SUMMER, A SUSPENSION OF THE 7 PER CENT RETAIL SALES TAX ON HOTEL AND MOTEL ROOMS UNTIL THE END OF 1979 IN AN EFFORT TO BOOST ONTARIO TOURISM AND INCREASED TAX EXEMPTIONS AND ALLOWANCES FOR THE EEPRESSED ONTARIO MINING INDUSTRY. AMENDMENTS TO THE MINING TAX ACT PROPOSED IN THE BUDGET PROVIDE FOR AN EXEMPTION FOR NEW MINES AND MAJOR EXPANSION OF EXISTING MINES, TO CARRY FORWARD UNUSED PROCESSING ALLOWANCE AND THE REMOVAL OF MANDATORY MINIMUM DEDUCTIONS OF DEPRECIATION AND EXPLORATION AND DEVELOPMENT EXPENDITURES, AND, FULL ALLOWANCE OF FOREIGN PROCESSING COSTS INCURRED IN THE PROCESSING OF ONTARIO ORE. TREASURER MCKEOUGH ALSO PROPOSED THAT THE OPERATING AND MAINTENANCE COST OF SOCIAL ASSETS IN CERTAIN AREAS, THAT IS, HOUSING,

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SOCIAL AND RECREATIONAL FACILITIES IN ISOLATED REGIONS, BE ALLOWED AS DEDUCTABLE EXPENSE FOR EXPENDITURES AFTER APRIL 9, 1974. THE MINING TAX MEASURES SPECIFICALLY WILL NOT APPLY TO URANIUM CONTRACTS WITH ONTARIO HYDRO SIGNED PRIOR TO THE DATE OF THE BUDGET, THEREBY EXCLUDING THE TWO MAJOR CONTRACTS SIGNED AT THE END OF FEBRUARY. AS A CONSERVATION MEASURE, THE BUDGET ALSO EXCLUDED STORM WINDOWS AND DOORS FROM RETAIL SALES TAX.

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5. CANADIAN MANUFACTURERS ASSOCIATION EXECUTIVE QUOTED AS SAYING "THE MANUFACTURING INDUSTRY DOES NOT GENERALLY BENEFIT FROM THE BUDGET" WHILE PRAISING EFFORTS TO BALANCE BUDGET. PRESIDENT OF SMALL BUSINESSMEN'S GROUP BELIEVES BUDGET'S BASIC ASSUMPTION OF 4.3 PERCENT ECONOMIC GROWTH OPTIMISTIC AND DISAPPOINTED 7 PER CENT SALES TAX NOT CUT TO 4 PER CENT AS STIMULANT.

6. COMMENT - THE OPPOSITION PARTIES HAVE ALREADY REACTED QUITE STRONGLY TO THE BUDGET, PRINCIPALLY ATTACKING THE LACK OF JOB CREATION. BOTH THE LIBERALS AND NDP HIT THE TORY GOVERNMENT ON THE INCREASE IN HEALTH INSURANCE PREMIUMS, WITH THE LIBERALS PARTICULARLY CONCERNED ABOUT THE EFFECTS SUCH INCREASES WILL HAVE ON SMALL BUSINESS VENTURES WHERE THE EMPLOYER WILL BEAR THE BRUNT OF THE NEW HEALTH INSURANCE COSTS. THE MINING TAX MEASURE WHICH ALLOWS COSTS OF FOREIGN PROCESSING OF ONTARIO ORE WILL BE TROUBLESOME FOR THE GOVERNMENT AS THE NDP, IN PARTICULAR, HAS BEEN PRESSING FOR MORE PROCESSING FACILITIES IN THE MINING AREAS OF NORTHERN ONTARIO TO PROVIDE ADDITIONAL EMPLOYMENT
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(FALCONBRIDGE NICKEL DOES ALL ITS REFINING AT NORWEGIAN PLANT WHILE INCO HAS UK REFINERIES IN ADDITION TO CANADIAN). WHILE TREASURER MCKEOUGH'S GOAL OF BALANCING THE ONTARIO BUDGET BY 1981 - OR POSSIBLY BY 1983 AS SOME PROVINCIAL BUREAUCRATS CONSIDER MORE REALISTIC - IS APPEALING TO THE BUSINESS COMMUNITY, IT WILL CERTAINLY CAUSE PROBLEMS WITH THE OPPOSITION PARTIES IN A PERIOD WHERE THE MAJOR POLITICAL THRUST IS ON JOB CREATION AND WHERE THE GOVERNMENT'S POSITION OF FOSTERING INDUSTRY TO PROVIDE JOBS RATHER THAN DIRECT EMPLOYMENT DEVELOPMENT IS COMING UNDER INCREASING CRITICISM IN A LEGISLATURE WHERE THE GOVERNMENT PARTY

IS IN THE MINORITY.

7. COPIES OF ONTARIO BUDGET BEING POUCHED ADDRESSEES,
CONTAINING IN ADDITION BUDGET STATEMENT, THREE BUDGET
PAPERS ON ONTARIO BORROWING AND PUBLIC CAPITAL CREATION,
ON SENIOR CITIZENS PROPERTY TAXES, AND ON STREAMLINING
GOVERNMENT OPERATIONS.

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